

CITY OF PELLA, IOWA

**INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2016

City of Pella, Iowa
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City of Pella, Iowa
City Officials
Year Ending June 30, 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2016)		
James Mueller	Mayor	January, 2016
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2018
Dave Vander Horst	Council Member	January, 2016
Harold Van Stryland	Council Member	January, 2016
Larry J. Peterson	Council Member	January, 2016
Bruce Schiebout	Council Member	January, 2018
Dan Vander Beek	Council Member	January, 2018
Mike Nardini	City Administrator	Indefinite
Corey Goodenow	Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2016
Ronda Brown	City Clerk	January, 2016
(After January 2016)		
James Mueller	Mayor	January, 2020
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2018
Tony Bokhoven	Council Member	January, 2020
Harold Van Stryland	Council Member	January, 2020
Larry J. Peterson	Council Member	January, 2020
Bruce Schiebout	Council Member	January, 2018
Dan Vander Beek	Council Member	January, 2018
Mike Nardini	City Administrator	Indefinite
Corey Goodenow	Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2017
Ronda Brown	City Clerk	January, 2017



705 Main Street
Pella, IA 50219
Ph.: 641-628-3737
Fax: 641-628-3757

www.vanmaanencpa.com

Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Pella, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2016, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability, the Schedule of City Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 5-11 and 58-67 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required Title 2, *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated November 17, 2016, on our consideration of the City of Pella's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pella's internal control over financial reporting and compliance.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

November 17, 2016

The City of Pella provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Pella exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$106,351,949 (net position).
- The assets and deferred outflows of resources of the City's governmental activities exceeded liabilities and deferred inflows of resources by \$50,276,515.
- Assets and deferred outflows of resources of the business type activities exceeded liabilities and deferred inflows of resources by \$56,075,434.
- The revenues of the governmental activities exceeded expenses by \$2,103,732.
- Within the City's business-type activities, revenues exceeded expenses by \$1,190,584. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2016, the general fund had an unassigned fund balance of \$2,110,919 or working capital of nearly 36% of annual expenditures.

USING THIS REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the City of Pella, Iowa as a whole and present an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year, the City's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related

cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

The government-wide financial statements are divided into two categories:

Governmental activities - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

Business type activities - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. The City has two kinds of funds:

Governmental funds are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital project fund and debt service funds, all of which are considered to be major funds. Data from the other twenty governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Proprietary funds can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Internal Service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements with greater detail.

The financial statements required for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. The analysis that follows focuses on changes in the net position for governmental and business type activities.

	NET POSITION AT YEAR-END					
	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2016	2015	2016	2015	2016	2015
Current and other assets	12,674,684	11,924,620	17,634,150	12,126,913	30,308,834	24,051,533
Capital assets	51,589,209	50,446,695	62,433,028	58,830,583	114,022,237	109,277,278
Total assets	64,263,893	62,371,315	80,067,178	70,957,496	144,331,071	133,328,811
Deferred outflow s of resources	1,320,925	665,071	481,035	258,206	1,801,960	923,277
Long-term liabilities	6,628,992	6,630,430	19,577,717	12,273,747	26,206,709	18,904,177
Other liabilities	2,135,145	1,956,100	4,499,956	3,569,753	6,635,101	5,525,853
Total Liabilities	8,764,137	8,586,530	24,077,673	15,843,500	32,841,810	24,430,030
Deferred inflow s of resources	6,544,166	6,277,073	395,106	487,352	6,939,272	6,764,425
Net position:						
Net investment in capital assets	47,968,200	45,870,195	43,682,489	47,492,989	91,650,689	93,363,184
Restricted	2,869,886	3,079,619	4,186,682	477,652	7,056,568	3,557,271
Unrestricted	(561,571)	(777,031)	8,206,263	6,914,209	7,644,692	6,137,178
Total net position	\$ 50,276,515	\$ 48,172,783	\$ 56,075,434	\$ 54,884,850	\$ 106,351,949	\$ 103,057,633

The most significant portion of the city's net position (86.18%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending. A portion of the City's net position (6.64%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position or the unrestricted net position of \$7,644,692 may be used to meet the City's ongoing obligations to citizens and creditors.

The Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB no.27* was implemented during fiscal year 2015. The beginning net position for governmental activities and business-type activities was restated \$3,079,138 and \$1,600,460, respectively, to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statements amounts for fiscal year 2014 net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

City of Pella, Iowa
Management Discussion and Analysis
June 30, 2016

	CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30					
	Governmental Activities		Business Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for service	\$ 726,483	642,259	25,633,000	24,163,857	26,359,483	24,806,116
Operating grants, contributions	1,456,037	1,210,424	-	-	1,456,037	1,210,424
Capital grants, contributions	1,427,288	2,420,213	188,102	-	1,615,390	2,420,213
General revenues:						
Property tax levied for:						
General purposes	4,744,307	4,743,151	-	-	4,744,307	4,743,151
Debt Service	280,138	273,607	-	-	280,138	273,607
Local option taxes	1,286,934	1,287,412	-	-	1,286,934	1,287,412
TIF	692,606	640,576	-	-	692,606	640,576
Grants & contributions not restricted to specific purposes	210,189	106,808	-	-	210,189	106,808
Payment in lieu of taxes	591,303	568,858	-	-	591,303	568,858
Unrestricted Investment earnings	13,338	13,074	37,463	30,639	50,801	43,713
Miscellaneous	-	-	35,948	53,882	35,948	53,882
Gain on sale of assets	4,563	3,311	98,787	(623,302)	103,350	(619,991)
Transfers	(243,980)	226,446	243,980	(226,446)	-	-
Total revenues	11,189,206	12,136,139	26,237,280	23,398,630	37,426,486	35,534,769
Expenses						
General government	777,742	733,187	-	-	777,742	733,187
Public Safety	2,213,183	2,141,031	-	-	2,213,183	2,141,031
Public Works	2,026,081	2,062,009	-	-	2,026,081	2,062,009
Culture & Recreation	3,019,009	2,589,175	-	-	3,019,009	2,589,175
Community & Economic Development	599,201	542,066	-	-	599,201	542,066
Facilities & Acquisition	340,194	163,875	-	-	340,194	163,875
Long-term debt and interest cost	110,064	140,757	-	-	110,064	140,757
Water	-	-	2,186,183	2,333,165	2,186,183	2,333,165
Wastewater	-	-	2,289,861	2,276,545	2,289,861	2,276,545
Sanitation	-	-	528,210	539,199	528,210	539,199
Electric	-	-	20,042,442	20,238,469	20,042,442	20,238,469
Internal Service	-	-	-	-	-	-
Total expenses	9,085,474	8,372,100	25,046,696	25,387,378	34,132,170	33,759,478
Change in net assets	2,103,732	3,764,039	1,190,584	(1,988,748)	3,294,316	1,775,291
Net position beginning of year	48,172,783	44,408,744	54,884,850	56,873,598	103,057,633	101,282,342
Net position end of year	\$ 50,276,515	48,172,783	56,075,434	54,884,850	106,351,949	103,057,633

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of \$4,987,839 at June 30, 2016. This was a decrease of \$137,246 from the prior year and was due to the utilization of debt proceeds and cash reserves for planned expenditures associated with major capital projects. A summary of each of the government major fund balances is as follows:

General Fund

The general fund's balance increased by \$74,885 in Fiscal Year 2016. As a result, the City's fund balance increased to \$2,111,929 which represents approximately 36% of annual expenditures. The modest increase was attributed to a concerted effort to maintain fund balances through disciplined fiscal management.

Debt Service Fund

The debt service fund balance increased by \$12,253 to \$22,683. This was attributed to property tax payments that were higher than anticipated in this fund.

Capital Projects Funds

The capital project funds are comprised of one main fund and five smaller funds which are as follows:

Capital Facilities Fund had a fund balance of \$0 at June 30, 2016. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund.

Other Capital Facility Funds had a total fund balance of \$0 at June 30, 2016.

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements with greater detail.

The combined net position of the enterprise funds at June 30, 2016 totaled \$56,075,434 of which \$8,206,263 is unrestricted. Overall, net position for the enterprise funds increased by \$1,190,584 largely due to an increase in electric revenues and an increase on the return of electric transmission investments.

The net position of internal service funds, which is comprised of the City's health insurance trust fund increased from \$685,604 to \$687,850. The slight increase was due to slightly lower than expected claims for the year. The City continues to maintain a very sufficient net position.

BUDGETARY HIGHLIGHTS

The FY 2016 budget was amended on May 17, 2016 for the following reasons:

- Expenses were increased \$24,750 to reflect the additional improvements made by the collection and distribution crews.
- Expenses were increased \$14,865 to reflect the higher Hazel St. water main costs than the original engineer's estimate.
- Revenues were increased \$115,000 to reflect an estimated increase in State Road Use Taxes.
- Expenses were increased \$12,000 to reflect additional maintenance needed at the Pella Municipal Airport.
- Expenses were increased \$15,630 to reflect the purchase of a new catalog system for the Pella Public Library.
- Revenues and expenses were increased \$18,000 to additional private grants and donations received by the Pella Public Library.
- Expenses were increased \$10,000 to reflect the purchase of in-car computers for the Police Department utilizing forfeiture funds.
- Revenues were increased \$20,000 to reflect an increase in annual building and permit revenue fees.
- Expenses were increased \$27,000 to reflect a premium increase in property and liability insurance.
- Expenses were increased \$10,000 to reflect the annual local option sales tax reconciliation with Marion County.
- Revenues were increased \$40,000 to reflect an increase in estimated Hotel/Motel tax.
- Expenses were increased \$24,000 to reflect payment to the CVB of the increased Hotel/Motel tax.
- Expenses were increased \$10,000 to reflect costs associated with the last municipal election.
- Expenses were increased \$17,500 to reflect the repairs to the Central Park Fountain wall.
- Expenses were increased \$35,000 to reflect engineering fees associated with the Sports Park Trail.
- Expenses were increased \$59,000 to reflect enhancements to the City's Central Park sound system.
- Revenues were increased \$59,000 to reflect private donations for the City's Central Park sound system.
- Expenses were increased \$13,700 to reflect maintenance and repair at the Pella Aquatic Center.
- Expenses were increased \$9,500 to reflect repairs to the Molengracht parking garage.
- Expenses were decreased \$27,000 to reflect lower than anticipated chemical expense for the wastewater utility.
- Expenses were increased \$1,887,907 to reflect improvements to the City's west electric substation.
- Revenues were increased \$4,025,625 to reflect the sale of electric revenue bonds for improvements to the west substation.
- Expenses were decreased \$29,700 to reflect structural repainting of the electric diesel plant.

- Expenses were increased \$74,483 to reflect the retainage payment for the decommissioning of the City's power plant.
- Expenses were increased \$151,000 to reflect adding the Oostport Alley and Franklin St. to the underground conversion.
- Expenses were increased \$155,000 to reflect the purchase of materials for the West Central underground conversion.
- Timing differences for expenses that were budget for fiscal year 2015 but were expended in fiscal year 2016 accounted for a \$472,867 increase in expenditures.
- Timing differences for expenses that were budget for fiscal year 2016 but will be expended in fiscal year 2017 accounted for a \$731,473 decrease in expenditures.
- Timing differences for expenses that were budget for fiscal year 2017 but began in fiscal year 2016 accounted for a \$536,084 increase in expenditures.
- The July 1, 2016 estimated beginning fund balance used for the budget was increased by \$1,713,852 to match the actual ending fund balance at June 30, 2015.

None of the above variations are expected to have a significant effect on future services or liquidity.

CAPITAL ASSETS

Capital Assets

Major construction projects and purchases along with the associated expenses for the year included the following:

Governmental Activities

One police vehicles was replaced for \$47,063
Four slides at the aquatic center were restored and repaired for \$96,258
Construction of the Pella Sports Park was completed for \$602,842
Washington Street reconstruction for \$195,768
Jefferson Street reconstruction was completed for \$385,584
Oskaloosa Street reconstruction for \$1,393,637

Water Fund

The implementation of the City's long term waters supply plan amounted to \$4,189,841
Oskaloosa Street water main replacement for \$153,513
Washington Street water main replacement for \$113,942
Jefferson Street water main replacement for \$106,208
Staff performed general distribution main maintenance which amounted to \$114,490

Wastewater Fund

Sewer pipe lining on Truman Road and Clark Street for \$261,955
Oskaloosa Street sewer main for \$38,219
Washington Street sewer main for \$64,527

Electric Fund

Replaced after coolers at the Diesel Plant for \$56,245
Began working on the west central underground conversion for \$79,264
Final payment for the decommissioning of the power plant amounted to \$74,483
Construction of the 69 kV ring bus for \$873,160
Improvements to the SCADA system were made for \$32,021
One truck was replaced for \$28,528
Added street lighting to West Washington Street for \$35,396
East Franklin Conversion for \$138,975
Oostport/Washington Conversion for \$238,888

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

DEBT ADMINISTRATION

At the close of fiscal year ended June 30, 2016, the City had bonds outstanding of \$22,240,543. The City maintains an Aa3 rating from Moody's Investor Services on all its general obligation debt and an A2 on electric revenue debt.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2014. The current general obligation debt limitation for the City is \$36,041,958 and at June 30, 2016 there was \$3,405,000 of outstanding general obligation debt. Therefore, the city's available debt margin is \$32,636,958 or 90.6%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

While the City has experienced consistent growth in valuation of existing residential and commercial valuations, the past two years have resulted in considerable new residential and commercial construction. This continued growth has led to unemployment rates in Marion County of 3.0%, slightly under the State average of 4.1%. While the local economy continues to expand at a conservative rate, the need to replace aging infrastructure, respond to unfunded mandates by federal and state regulatory agencies may eventually necessitate utility rates increases.

Also of concern are the State's legislative changes to the property tax system, primarily the commercial property and industrial tax classification. While the City's balances maintain the necessary reserves and flexibility to accommodate modest changes, reductions in the ability to collect property tax or reductions in intergovernmental funds may impact the City's ability to continue to maintain or enhance service levels.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2016 Budget:

Property Taxes

The City was able to maintain its property tax rate at the historically stable rate of \$10.20/\$1,000 of taxable valuation. The expected rate for FY 2017 continues the City's commitment to maintaining one of the lowest property tax rates in the state.

Electric Rates

The fiscal year 2017 budget does not include an electric utility rate increase. The relatively small projected increase by the City's power supplier, Missouri River Energy Services (MRES), along with anticipated increases in transmission rate recovery and reduced transmission costs will allow the City to support continued operational and capital expenditures associated with the utility, including the improvements to the City's west substation.

Water Rates

For fiscal year 2017, the City expects to initiate a rate increase of 7% effective July 1, 2017. The City has initiated the implementation of the City's \$16 million water supply plan, which will likely require 7% rate increases over each of the next two years to appropriately fund the City's debt service requirements.

Wastewater Rates

In fiscal year 2014 and 2015, modest rate increases were necessary to fund the Iowa Department of Natural Resources (IDNR) mandates to reduce bypassing. No rate increases are projected for fiscal year 2017, although the City is in the process of evaluating the necessary capital improvements associated with approval of the City's National Pollutant Discharge Elimination System NPDES permit.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be directed to the Finance Director, 825 Broadway Street, Pella, Iowa 50219.

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Basic Financial Statements

City of Pella, Iowa
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 3,358,156	8,851,748	12,209,904
Receivables:			
Property tax:			
Delinquent	27,736	-	27,736
Succeeding year	4,751,063	-	4,751,063
Tax increment financing:			
Delinquent	398	-	398
Succeeding year	960,599	-	960,599
Local option sales tax	167,403	-	167,403
Accounts (net of allowance for uncollectibles)	53,496	2,546,782	2,600,278
Accrued interest	-	1,525	1,525
Due from other governments	427,543	1,223,541	1,651,084
Inventories	-	703,760	703,760
Deposits	-	70,000	70,000
Prepaid expenses	58,404	-	58,404
Restricted assets:			
Cash and pooled investments	2,869,886	4,236,794	7,106,680
Capital assets(net of accumulated depreciation)	51,589,209	62,433,028	114,022,237
Total assets	64,263,893	80,067,178	144,331,071
Deferred Outflows of Resources			
Pension related deferred outflows	1,320,925	481,035	1,801,960
Liabilities			
Excess of warrants over bank balance	\$ 3,678	-	3,678
Accounts payable and accrued liabilities	1,042,899	3,038,048	4,080,947
Salaries and benefits payable	240,281	82,392	322,673
Deposits	475	120,112	120,587
Accrued interest payable	7,034	33,812	40,846
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes, net	623,319	-	623,319
Capital lease obligations	95,514	-	95,514
Revenue bonds payable, net	-	1,136,041	1,136,041
Compensated absences	121,945	89,551	211,496
Portion due or payable after one year:			
General obligation bonds, net	2,836,388	-	2,836,388
Capital lease obligations	65,788	-	65,788
Revenue bonds payable, net	-	17,614,498	17,614,498
Compensated absences	487,778	358,204	845,982
Net pension liability	3,132,181	1,521,904	4,654,085
Net OPEB liability	106,857	83,111	189,968
Total liabilities	8,764,137	24,077,673	32,841,810

City of Pella, Iowa
Statement of Net Position
June 30, 2016

Continued from previous page.

Deferred Inflows of Resources

Unavailable revenues:

Pension related deferred inflows

832,504

395,106

1,227,610

Succeeding year property tax

4,751,063

-

4,751,063

Tax increment financing

960,599

-

960,599

Total deferred inflows of resources

6,544,166

395,106

6,939,272

Net Position

Net investment in capital assets

47,968,200

43,682,489

91,650,689

Restricted for:

Expendable:

Debt service, improvements and reserve

15,649

4,055,971

4,071,620

Special Purposes

2,713,227

-

2,713,227

Other

-

60,711

60,711

Non-expendable:

Permanent Trust

140,000

-

140,000

Prepaid expenditures

1,010

-

1,010

Deposits

-

70,000

70,000

Unrestricted

(561,571)

8,206,263

7,644,692

Total net position

\$

50,276,515

56,075,434

106,351,949

See notes to financial statements.

City of Pella, Iowa
Statement of Activities
Year ended June 30, 2016

		Program Revenues		
		Charges for	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest
	Expenses	Service		
Functions/Programs				
Governmental activities:				
Public safety	\$ 2,213,183	39,735	41,630	187,107
Public works	2,026,081	25,503	1,284,055	987,523
Culture and recreation	3,019,009	527,191	121,473	-
Community and economic development	599,201	104,292	8,879	-
General government	777,742	29,762	-	-
Long-term debt costs and interest	110,064	-	-	-
Facilities and acquisition	340,194	-	-	252,658
Total governmental activities	9,085,474	726,483	1,456,037	1,427,288
Business type activities:				
Water	2,186,183	2,160,838	-	188,102
Wastewater	2,289,861	2,109,125	-	-
Sanitation	528,210	598,831	-	-
Electric	20,042,442	20,764,206	-	-
Total business type activities	25,046,696	25,633,000	-	188,102
Total primary government	\$ 34,132,170	26,359,483	1,456,037	1,615,390
General Revenues:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Unrestricted investment earnings				
Miscellaneous				
Gain(loss) on sale/disposal of assets				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position beginning of year				
Net position end of year				
See notes to financial statements.				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,944,711)	-	(1,944,711)
271,000	-	271,000
(2,370,345)	-	(2,370,345)
(486,030)	-	(486,030)
(747,980)	-	(747,980)
(110,064)	-	(110,064)
(87,536)	-	(87,536)
(5,475,666)	-	(5,475,666)
-	162,757	162,757
-	(180,736)	(180,736)
-	70,621	70,621
-	721,764	721,764
-	774,406	774,406
(5,475,666)	774,406	(4,701,260)
4,744,307	-	4,744,307
280,138	-	280,138
692,606	-	692,606
1,286,934	-	1,286,934
210,189	-	210,189
591,303	-	591,303
13,338	37,463	50,801
-	35,948	35,948
4,563	98,787	103,350
(243,980)	243,980	-
7,579,398	416,178	7,995,576
2,103,732	1,190,584	3,294,316
48,172,783	54,884,850	103,057,633
\$ 50,276,515	56,075,434	106,351,949

City of Pella, Iowa
Balance Sheet
Governmental Funds
June 30, 2016

	Major Funds			Non-major	
	General	Capital Projects	Debt Service	Other Governmental Funds	Total
Assets					
Cash, cash equivalents and pooled investments	\$ 2,445,860	371,916	21,046	2,721,813	5,560,635
Receivables:					
Property tax:					
Delinquent	22,421	-	1,637	3,678	27,736
Succeeding year	3,883,893	-	-	867,170	4,751,063
Tax increment financing:					
Delinquent	-	-	-	398	398
Succeeding year	-	-	-	960,599	960,599
Local option sales tax	-	-	-	167,403	167,403
Accounts receivable, miscellaneous	3,547	46,185	-	3,764	53,496
Due from other governments	50,070	377,473	-	-	427,543
Prepaid expenditures	1,010	-	-	-	1,010
Total assets	\$ 6,406,801	795,574	22,683	4,724,825	11,949,883
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Excess of warrants over bank balance	\$ -	-	-	3,678	3,678
Accounts payable and accrued liabilities	184,829	795,574	-	25,545	1,005,948
Salaries and benefits payable	226,150	-	-	14,131	240,281
Customer deposits	-	-	-	475	475
Total liabilities	410,979	795,574	-	43,829	1,250,382
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	3,883,893	-	-	867,170	4,751,063
Tax increment financing	-	-	-	960,599	960,599
Total deferred inflows of resources	3,883,893	-	-	1,827,769	5,711,662
Fund balances:					
Nonspendable:					
Prepaid expenditures	1,010	-	-	-	1,010
Permanent Trust	-	-	-	140,000	140,000
Restricted for:					
Debt Service	-	-	22,683	-	22,683
Other purposes	-	-	-	2,713,227	2,713,227
Unassigned	2,110,919	-	-	-	2,110,919
Total fund balances	2,111,929	-	22,683	2,853,227	4,987,839
Total liabilities, deferred inflows of resources and fund balances	\$ 6,406,801	795,574	22,683	4,724,825	11,949,883

See notes to financial statements.

Exhibit D

City of Pella, Iowa
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Position
June 30, 2016

Total fund balances of governmental funds (Exhibit C)	\$ 4,987,839
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$76,571,531 and the accumulated depreciation is \$24,982,322.	51,589,209
---	------------

Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources	\$ 1,320,925	
Deferred inflows of resources	<u>(832,504)</u>	488,421

An internal service fund is used by management to track the collection and payment of various employee benefits. The assets and liabilities of the internal service fund are included in the statement of net position.	687,850
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Long-term liabilities, including bonds/notes payable, bond discounts or premiums (initial and amortized), compensated absences payable, other postemployment benefits payable, net pension liabilities and accrued interest payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(7,476,804)</u>
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Net position of governmental activities (Exhibit A)	<u>\$ 50,276,515</u>
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See notes to financial statements.

Exhibit E

City of Pella, Iowa
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2016

	Major Funds			Non-major	
	General	Capital Projects	Debt Service	Other Governmental Funds	Totals
Revenues:					
Property tax	\$ 3,658,812	-	280,138	599,279	4,538,229
Tax increment financing	-	-	-	692,606	692,606
Local option sales tax	-	-	-	1,016,934	1,016,934
Other city taxes	482,479	-	1,147	2,590	486,216
Licenses and permits	115,971	-	-	-	115,971
Use of money and property	66,689	161	56	5,752	72,658
Intergovernmental	815,432	1,034,630	12,347	1,596,127	3,458,536
Charges for services	509,934	-	-	1,333	511,267
Miscellaneous	72,230	440,599	-	71,150	583,979
Total revenues	5,721,547	1,475,390	293,688	3,985,771	11,476,396
Expenditures:					
Operating:					
Public safety	2,141,008	-	-	10,626	2,151,634
Public works	320,666	-	-	814,837	1,135,503
Culture and recreation	2,290,275	-	-	106,551	2,396,826
Community and economic development	554,215	-	-	48,192	602,407
General government	604,688	-	-	12,119	616,807
Debt service	-	-	1,067,803	-	1,067,803
Capital projects	-	3,400,524	-	3,050	3,403,574
Total expenditures	5,910,852	3,400,524	1,067,803	995,375	11,374,554
Excess (deficiency) of revenues over (under) expenditures	(189,305)	(1,925,134)	(774,115)	2,990,396	101,842
Other financing sources (uses):					
Operating transfers in	687,028	1,925,134	786,368	-	3,398,530
Operating transfers (out)	(424,791)	-	-	(3,217,719)	(3,642,510)
Unrealized gains (losses) on investments	-	-	-	329	329
Proceeds from sale of assets	1,953	-	-	2,610	4,563
Total other financing sources (uses)	264,190	1,925,134	786,368	(3,214,780)	(239,088)
Change in fund balances	74,885	-	12,253	(224,384)	(137,246)
Fund balances beginning of year	2,037,044	-	10,430	3,077,611	5,125,085
Fund balances end of year	\$ 2,111,929	-	22,683	2,853,227	4,987,839

See notes to financial statements.

City of Pella, Iowa

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds to the Statement of Activities

Year ended June 30, 2016

Change in fund balances - Total governmental funds (Exhibit E) \$ (137,246)

**Amounts reported for governmental activities in the
Statement of Activities are different because:**

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and depreciation expense in the current year are as follows:

Expenditures for capital assets	\$ 3,203,380	
Loss on equipment disposal/transfer	(188,102)	
Depreciation expense	<u>(1,872,764)</u>	1,142,514

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position. Also governmental funds report the effect of bond discounts and premiums, whereas these amounts are deferred and amortized in the Statement of Activities. Current year items are as follows:

Issued	-	
Repaid	947,172	
Amortization of bond premiums	9,745	
Amortization of bond discounts	<u>(1,426)</u>	955,491

An internal service fund is used by management to track collections of medical and dental insurance premiums and Section 125 deductions from the employer and employee as well as disbursements for health and dental insurance premiums and claims, Section 125 claims, and other employee benefits.

Interest revenue from governmental internal service fund	2,798	
Employer funds for benefits shifted from other funds	714,024	
Employee benefits collected through withholding	183,405	
Claims and premiums paid out	<u>(897,981)</u>	2,246

The current year City employer share of IPERS & MRPSI contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position.

453,114

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	(29,475)	
Other postemployment benefits	(14,602)	
Pension expense	(270,558)	
Interest on long-term debt	<u>2,248</u>	(312,387)

Change in net position of governmental activities (Exhibit B) \$ 2,103,732

See notes to financial statements.

City of Pella, Iowa
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Assets						
Current assets:						
Cash, cash equivalents and pooled investments	\$ 1,217,519	784,255	6,692,128	157,846	8,851,748	667,407
Receivables:						
Accrued interest	1,452	-	73	-	1,525	-
Trade (net of allowance for uncollectible)	210,365	190,523	2,095,333	50,561	2,546,782	-
Due from other governments	1,223,541	-	-	-	1,223,541	-
Inventories	116,043	123,449	464,268	-	703,760	-
Security Deposit	-	-	70,000	-	70,000	-
Prepaid expenses	-	-	-	-	-	57,394
Total current assets	2,768,920	1,098,227	9,321,802	208,407	13,397,356	724,801
Non-current assets:						
Restricted cash and cash equivalents	-	-	4,176,083	60,711	4,236,794	-
Capital assets (net of accumulated depreciation/amortization)	12,862,115	11,647,032	37,923,881	-	62,433,028	-
Total non-current assets	12,862,115	11,647,032	42,099,964	60,711	66,669,822	-
Total assets	\$ 15,631,035	12,745,259	51,421,766	269,118	80,067,178	724,801
Deferred Outflows of Resources						
Pension related deferred outflows	127,029	98,880	248,570	6,556	481,035	-
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	919,006	91,701	1,989,305	38,036	3,038,048	36,951
Salaries and benefits payable	23,484	19,370	38,469	1,069	82,392	-
Accrued interest payable	7,700	12,481	13,631	-	33,812	-
Compensated absences payable	22,441	24,762	42,102	246	89,551	-
Payable from restricted assets:						
Revenue notes, net	-	469,000	667,041	-	1,136,041	-
Deposits	-	-	120,112	-	120,112	-
Total current liabilities	972,631	617,314	2,870,660	39,351	4,499,956	36,951
Noncurrent liabilities:						
Revenue notes, net	6,065,661	5,184,579	6,364,258	-	17,614,498	-
Compensated absences payable	89,763	99,048	168,408	985	358,204	-
Net pension liability	380,893	293,802	831,968	15,241	1,521,904	-
Net OPEB liability	22,465	21,184	37,792	1,670	83,111	-
Total noncurrent liabilities	6,558,782	5,598,613	7,402,426	17,896	19,577,717	-
Total liabilities	7,531,413	6,215,927	10,273,086	57,247	24,077,673	36,951
Deferred Inflows of Resources						
Unavailable revenues:						
Pension related deferred inflows	95,797	73,476	222,684	3,149	395,106	-
Net Position						
Net investment in capital assets	6,796,454	5,993,453	30,892,582	-	43,682,489	-
Restricted for:						
Nonexpendable:						
Security Deposit	-	-	70,000	-	70,000	-
Expendable:						
Revenue bond reserve	-	-	4,055,971	-	4,055,971	-
Other	-	-	-	60,711	60,711	-
Unrestricted	1,334,400	561,283	6,156,013	154,567	8,206,263	687,850
Total net position	\$ 8,130,854	6,554,736	41,174,566	215,278	56,075,434	687,850

See notes to financial statements

City of Pella, Iowa
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
June 30, 2016

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Operating revenues:						
Charges for service (pledged for revenue notes)	\$ 2,125,659	2,104,316	17,344,441	598,831	22,173,247	-
Miscellaneous	35,179	4,809	3,419,765	-	3,459,753	-
Internal service charges	-	-	-	-	-	897,429
Total operating revenues	2,160,838	2,109,125	20,764,206	598,831	25,633,000	897,429
Operating expenses:						
Business type activities:						
Personnel services	802,935	634,671	1,495,422	42,349	2,975,377	-
Contractual	50,295	33,606	-	453,096	536,997	703,715
Franchise fees	52,902	-	-	-	52,902	-
Materials and Supplies	589,701	489,212	3,158,894	32,765	4,270,572	-
Purchased power	-	-	12,929,630	-	12,929,630	-
Payments in lieu of taxes	-	-	591,303	-	591,303	-
Payments in lieu of services	-	-	90,403	-	90,403	-
Depreciation/Amortization	623,236	960,537	1,543,544	-	3,127,317	-
Claims expense	-	-	-	-	-	194,266
Total operating expenses	2,119,069	2,118,026	19,809,196	528,210	24,574,501	897,981
Operating income (loss)	41,769	(8,901)	955,010	70,621	1,058,499	(552)
Non-operating revenues (expenses):						
Decommissioning costs	-	-	(74,483)	-	(74,483)	-
Debt costs and interest	(67,114)	(171,835)	(158,763)	-	(397,712)	-
Interest income	4,231	3,009	29,628	595	37,463	2,798
Rents	-	18,050	-	-	18,050	-
Sale/disposal of fixed assets	1,150	-	97,637	-	98,787	-
Miscellaneous revenues	188,102	-	-	17,898	206,000	-
Net non-operating revenues (expenses)	126,369	(150,776)	(105,981)	18,493	(111,895)	2,798
Income (loss) before operating transfers	168,138	(159,677)	849,029	89,114	946,604	2,246
Transfers in, (out)	244,062	79,352	(23,394)	(56,040)	243,980	-
Net other financing sources (uses)	244,062	79,352	(23,394)	(56,040)	243,980	-
Change in net position	412,200	(80,325)	825,635	33,074	1,190,584	2,246
Net position beginning of year	7,718,654	6,635,061	40,348,931	182,204	54,884,850	685,604
Net position end of year	\$ 8,130,854	6,554,736	41,174,566	215,278	56,075,434	687,850

See notes to financial statements.

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2016

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
Cash flows from operating activities:						
Cash received from customers and users	\$ 2,120,561	2,093,980	20,627,280	598,773	25,440,594	-
Cash received from internal service charges	-	-	-	-	-	897,429
Cash paid for personal services	(816,921)	(622,406)	(1,513,890)	(43,307)	(2,996,524)	-
Cash paid to suppliers	(831,382)	(451,315)	(16,003,205)	(500,359)	(17,786,261)	(955,392)
Replacement tax, transfers	-	-	(591,303)	-	(591,303)	-
Net cash provided (used) by operating activities	472,258	1,020,259	2,518,882	55,107	4,066,506	(57,963)
Cash flows from non-capital financing activities:						
Miscellaneous receipts	188,102	18,050	-	17,898	224,050	-
Transfers in (out)	244,062	79,352	(23,394)	(56,040)	243,980	-
Net cash provided (used) by non-capital financing activities	432,164	97,402	(23,394)	(38,142)	468,030	-
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(4,738,650)	(372,627)	(1,430,383)	-	(6,541,660)	-
Decommissioning costs	-	-	(74,483)	-	(74,483)	-
Principal paid on revenue notes	-	(467,420)	(290,000)	-	(757,420)	-
Proceeds from revenue bonds issued	4,151,782	-	4,025,625	-	8,177,407	-
Interest costs (not capitalized)	(64,114)	(158,878)	(126,921)	-	(349,913)	-
Other long-term debt costs	(3,000)	(12,957)	(45,092)	-	(61,049)	-
Proceeds from sale of capital assets	1,150	-	97,637	-	98,787	-
Net cash provided (used) by capital and related financing activities	(652,832)	(1,011,882)	2,156,383	-	491,669	-
Cash flows from investing activities:						
Proceeds from (deposits into) investments	(182,404)	(893)	(4,721)	(12)	(188,030)	2,520
Interest on investments	3,310	3,009	29,570	595	36,484	2,798
Net cash provided (used) by investing activities	(179,094)	2,116	24,849	583	(151,546)	5,318
Net increase (decrease) in cash and cash equivalents	72,496	107,895	4,676,720	17,548	4,874,659	(52,645)
Cash and cash equivalents at beginning of year	1,109,890	642,159	5,522,862	194,622	7,469,533	685,666
Cash and cash equivalents at end of year	\$ 1,182,386	750,054	10,199,582	212,170	12,344,192	633,021

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2016

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	

Continued from previous page

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ 41,769	(8,901)	955,010	70,621	1,058,499	(552)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation/Amortization	623,236	960,537	1,543,544	-	3,127,317	-
Change in assets and liabilities:						
(Increase) decrease in receivables	(40,277)	(15,145)	(140,719)	(58)	(196,199)	-
(Increase) decrease in due from other governments	(589,169)	-	-	-	(589,169)	-
(Increase) decrease in inventory	44,161	8,116	119,115	-	171,392	-
(Increase) decrease in prepaid expense	-	-	-	-	-	(54,790)
Increase (decrease) in accounts payable	406,524	63,387	56,607	(14,498)	512,020	(2,621)
Increase (decrease) in accrued expenses	3,911	5,046	(1,866)	135	7,226	-
Increase (decrease) in compensated absences	30	20,551	11,002	708	32,291	-
Increase in deposits held	-	-	3,793	-	3,793	-
Increase (decrease) in net pension liability	65,135	50,791	124,577	3,508	244,011	-
(Increase) in deferred outflows of resources	(63,228)	(49,778)	(105,638)	(4,185)	(222,829)	-
(Decrease) in deferred inflows of resources	(24,624)	(19,201)	(47,095)	(1,326)	(92,246)	-
Increase (decrease) in other postemployment benefits	4,790	4,856	552	202	10,400	-
Total adjustments	430,489	1,029,160	1,563,872	(15,514)	3,008,007	(57,411)
Net cash provided (used) by operating activities	\$ 472,258	1,020,259	2,518,882	55,107	4,066,506	(57,963)

Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Position:

Current assets:

Unrestricted assets:

Cash, cash equivalents and pooled investments	\$ 1,217,519	784,255	6,692,128	157,846	8,851,748	667,407
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Restricted assets:

Cash and pooled investments:

Revenue bond reserve	-	-	4,055,971	-	4,055,971	-
Customer deposits & project share	-	-	120,112	-	120,112	-
Sanitation totes	-	-	-	60,711	60,711	-
	-	-	4,176,083	60,711	4,236,794	-
Total cash, cash equivalents and pooled investments	1,217,519	784,255	10,868,211	218,557	13,088,542	667,407

Less items not meeting definition of cash and cash equivalent:

Certificates of deposit	(17,867)	(17,393)	(155,037)	(3,248)	(193,545)	(17,487)
Iowa Public Agency Investment Trust	(17,266)	(16,808)	(149,824)	(3,139)	(187,037)	(16,899)
Government Bonds	-	-	(363,768)	-	(363,768)	-
	(35,133)	(34,201)	(668,629)	(6,387)	(744,350)	(34,386)
Cash and cash equivalents at year end	\$ 1,182,386	750,054	10,199,582	212,170	12,344,192	633,021

Exhibit I

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2016

	Business Type Activities					Governmental
	Enterprise Funds					Activities
	Water	Wastewater	Electric	Sanitation	Total	Internal Service Funds
<i>Continued from previous page</i>						
Non-cash investing, capital and financing activities:						
Current premium amortization, prior cash payment	\$ -	-	9,304	-	9,304	-
Current discount amortization, prior cash receipt	-	-	(2,263)	-	(2,263)	-
Donated Capital assets	188,102	-	-	-	188,102	-

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. It also provides water, sewer, electrical and sanitation utilities.

The financial statements of the City of Pella, Iowa, are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Pella has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Pella has no component units which meet the Governmental Accounting Standards Board criteria.

While the South Central Regional Airport Agency did not fit the criteria to be included as a component unit, disclosure about the nature of the relationship and accountability is required. The City of Pella, City of Oskaloosa and Mahaska County have entered into a 28E Agreement known as the South Central Regional Airport Agency. The City of Pella appoints 3 of the 6 members on the board. Four votes are required for a majority to approve matters. Capital expenditures are reimbursed 90% by the Federal Aviation Authority, 5% by the City of Pella and 5% by the City of Oskaloosa. Operating expenditures are reimbursed 60% by the City of Pella and 40% by the City of Oskaloosa. The South Central Regional Airport Agency had a separate audit. Financial statements are available at the Pella City Hall, 825 Broadway Street, Pella, IA 50219 or the Oskaloosa City Hall, 220 S. Market St., Oskaloosa, IA 52577, 641-673-9431.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the City's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

(1) *Summary of Significant Accounting Policies (continued from previous page)*

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues from general and emergency levies and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The Debt Service Fund is used to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Electric Fund is used to account for the operation and maintenance of the City's electricity production, procurement and transmission system.

In addition, the City reports the following fund types:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

These non-major governmental funds are grouped for financial statement reporting purposes:

Special Revenue:

The Pella Business Corridor Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

(1) *Summary of Significant Accounting Policies (continued from previous page)*

The High Point Tax Increment Financing fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Mills Farm Tax Increment Financing fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Road Use Tax fund is used to account for road construction and maintenance.

The Local Option Sales Tax fund is used to account for the revenues from the tax authorized by referendum and used for aquatic center, debt relief, capital improvements, equipment and community programs and services.

The Employee Benefits fund is used to account for property tax levied to finance the payment of employee benefits.

The Pella Clothing Bank, Police Reserve, Community Development Trust, Carnegie-Viersen Library Gift/Memorial, Pella Community Center Trust, Art Center Trust, Airport Trust, Police Asset Forfeiture, Soccer Complex, Community Gardens Trust, Community Service Scholarship Trust, Parks Development, and Carnegie-Viersen-Van Gorp Trust funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

(1) *Summary of Significant Accounting Policies (continued from previous page)*

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the modified accrual basis. The financial statements of the City are prepared by making memorandum adjusting entries to the modified accrual basis financial records.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Trade receivables – Trade receivables are recorded in the enterprise funds at the time the service is billed. Trade receivables for the enterprise funds are listed net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated each year. See note 3.

Inventories - Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2016 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2015.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

(1) *Summary of Significant Accounting Policies (continued from previous page)*

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include special purpose funds and customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets, which include property, equipment, vehicles and infrastructure assets acquired after July 1, 1980 (e.g. roads, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position and in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of five years.

Capital assets depreciated using the straight line method of depreciation over the following estimated useful lives in years, are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Roads	20-50
Wastewater, Water and Electrical Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the City after the measurement date but before the end of the City's reporting period.

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water, sewer and electric funds were financed with existing revenues, no interest on debt was incurred or capitalized.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2016.

Long-term Liabilities - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Position and the proprietary fund Statement of Net Position.

(1) *Summary of Significant Accounting Policies (continued from previous page)*

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System and the Municipal Fire and Police Retirement System (Systems') and additions to/deductions from Systems' fiduciary net position have been determined on the same basis as they are reported by Systems'. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the community and economic development, general government, debt service and capital projects functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

(2) *Cash and Pooled Investments (continued from previous page)*

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2016 are as follows:

Certificates of deposit	\$	255,781
Iowa Public Agency Investment Trust		247,181
Money Market Liquid Funds		43,754
Government Bonds		376,104
Total	\$	<u>922,820</u>

The investments in the Iowa Public Agency Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The investment in the Iowa Public Agency Investment Trust is rated unrated. The investments in Government Bonds are primarily invested in U.S. Treasury securities.

(3) **Trade Accounts Receivable and Allowance for Uncollectibles**

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Wastewater, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts 60 days or older and 50% of accounts 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Wastewater and Sanitation. Amounts are as follows: \$270,627, \$47,516, \$43,511 and \$18,195, respectively.

(4) **Proprietary Revenues Net of Discounts and Allowances**

Enterprise Fund	Gross Charges for Services	(Increase) Decrease in Allowance	Net Charges for Service
Water	\$ 2,127,189	(1,530)	2,125,659
Wastewater	2,100,779	3,537	2,104,316
Electric	17,335,011	9,430	17,344,441
Sanitation	598,879	(48)	598,831
Total	<u>\$ 22,161,858</u>	<u>11,389</u>	<u>22,173,247</u>

(5) **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(6) **Emission Credits**

The Electric Fund earns emission credits throughout the year. These credits are expended if emissions are below EPA set requirements. The City has no cost in the credits; therefore, according to available accounting guidance, they have not been recorded in the financial statements. The credits are potentially saleable, however, and should the City's emissions be below acceptable levels, these credits would offset otherwise imposed costs. Emission credit activity and value of the unused credits for the year ended June 30, 2016 is as follows:

Credit Type	Number of Credits					Value	
	7/1/2015	Earned	Used/ Transferred	Bought/Sold	6/30/2016	Each	Total
SO2 (1 Ton)	8,492	0	0	0	8,492	\$0.35	\$ 2,972
SO2 (.5 Ton)	8,820	1,764	0	0	10,584	0.25	2,646
Total	17,312	1,764	0	0	19,076		\$ 5,618

(7) Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

Primary Government:	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,490,589	1,598,305	-	7,088,894
Construction in progress:				
Vermeer Trail	-	21,682	-	21,682
Sports Park	7,482,755	538,675	8,021,430	-
Oskaloosa St. project	75,486	1,393,637	-	1,469,123
Washington St. Reconstruction	-	195,768	-	195,768
Civic Payroll Software	11,375	13,475	24,850	-
Bos Landen Club House Imp	206,043	19,483	225,526	-
Hazel St/Pool Drive	16,960	24,251	41,211	-
Jefferson St. Reconstruction	13,823	385,584	399,407	-
Total capital assets not being depreciated	13,297,031	4,190,860	8,712,424	8,775,467
Capital assets being depreciated:				
Vehicles	1,821,239	74,837	25,093	1,870,983
Buildings and improvements	29,358,332	6,510,413	476,447	35,392,298
Machinery and equipment	6,054,558	574,606	29,213	6,599,951
Infrastructure	23,367,744	565,088	-	23,932,832
Total capital assets being depreciated	60,601,873	7,724,944	530,753	67,796,064
Less accumulated depreciation for:				
Vehicles	1,018,186	238,536	25,093	1,231,629
Buildings and improvements	8,334,206	788,739	288,345	8,834,600
Machinery and equipment	4,974,869	178,218	29,213	5,123,874
Infrastructure	9,124,948	667,271	-	9,792,219
Total accumulated depreciation	23,452,209	1,872,764	342,651	24,982,322
Total capital assets being depreciated net	37,149,664	5,852,180	188,102	42,813,742
Governmental activities capital assets, net	\$ 50,446,695	10,043,040	8,900,526	51,589,209

(7) Capital assets (continued from previous page)

Business type activities:

Water Fund:

Capital assets not being depreciated:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Land	\$ 118,360	-	-	118,360
Construction in progress:				
Membrane Treatment Addition	949,604	2,659,560	-	3,609,164
Source Water-Jordan Well	981,159	1,527,548	2,508,707	-
Oskaloosa Main replacement	8,288	153,513	-	161,801
Jefferson St. Main replacement	3,985	106,208	110,193	-
Washington St. reconstruction	-	113,942	-	113,942
Raw Water Main	-	2,733	-	2,733
Total capital assets not being depreciated	2,061,396	4,563,504	2,618,900	4,006,000

Capital assets being depreciated:

Buildings and improvements	10,109,575	2,696,809	-	12,806,384
Machinery and equipment	948,839	16,508	-	965,347
Furniture and fixtures	-	-	-	-
Vehicles	138,850	-	-	138,850
Infrastructure	6,292,554	268,831	-	6,561,385
Total capital assets being depreciated	17,489,818	2,982,148	-	20,471,966

Less accumulated depreciation for:

Buildings and improvements	6,829,590	303,434	-	7,133,024
Machinery and equipment	745,431	63,979	-	809,410
Furniture and fixtures	-	-	-	-
Vehicles	99,355	9,989	-	109,344
Infrastructure	3,318,239	245,834	-	3,564,073
Total accumulated depreciation	10,992,615	623,236	-	11,615,851

Total capital assets being depreciated net

	6,497,203	2,358,912	-	8,856,115
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Water - capital assets, net

\$	8,558,599	6,922,416	2,618,900	12,862,115
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(7) Capital assets (continued from previous page)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Wastewater Fund:				
Capital assets not being depreciated:				
Land	\$ 907,049	-	-	907,049
Construction in Progress:				
Washington St. Sewer Main	-	64,527	-	64,527
Oskaloosa St. Sewer Main	5,404	38,219	-	43,623
Total capital assets not being depreciated	912,453	102,746	-	1,015,199
Capital assets being depreciated:				
Buildings and improvements	19,989,390	-	-	19,989,390
Machinery and equipment	825,800	-	-	825,800
Furniture and fixtures	3,900	-	-	3,900
Vehicles	323,874	-	-	323,874
Infrastructure	10,121,496	269,881	-	10,391,377
Total capital assets being depreciated	31,264,460	269,881	-	31,534,341
Less accumulated depreciation for:				
Buildings and improvements	13,932,396	521,518	-	14,453,914
Machinery and equipment	574,604	45,988	-	620,592
Furniture and fixtures	3,900	-	-	3,900
Vehicles	310,180	5,300	-	315,480
Infrastructure	5,120,891	387,731	-	5,508,622
Total accumulated depreciation	19,941,971	960,537	-	20,902,508
Total capital assets being depreciated net	11,322,489	(690,656)	-	10,631,833
Wastewater - capital assets, net	\$ 12,234,942	(587,910)	-	11,647,032

(7) Capital assets (continued from previous page)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Electric Fund:				
Capital assets not being depreciated/amortized:				
Land	\$ 881,078	-	-	881,078
Construction in progress:				
Diesel Tanks & Tower Support Painting	-	15,728	-	15,728
West Central Conversion	-	79,264	-	79,264
SCADA-Radio to Fiber Comm	92,449	32,021	-	124,470
69KV Ring Bus	37,022	873,160	-	910,182
Oostport/Washington Conversion	50,421	238,888	289,309	-
Total capital assets not being depreciated/amortized	1,060,970	1,239,061	289,309	2,010,722
Capital assets being depreciated/amortized:				
Buildings and improvements	11,500,444	-	-	11,500,444
Machinery and equipment	31,880,023	452,403	-	32,332,426
Furniture and fixtures	16,988	-	-	16,988
Vehicles	582,785	28,228	15,499	595,514
Intangibles	8,460,000	-	-	8,460,000
Total capital assets being depreciated/amortized	52,440,240	480,631	15,499	52,905,372
Less accumulated depreciation/amortization for:				
Buildings and improvements	2,934,610	288,836	-	3,223,446
Machinery and equipment	11,222,732	955,833	-	12,178,565
Furniture and fixtures	16,988	-	-	16,988
Vehicles	463,778	42,511	15,499	490,790
Intangibles	826,060	256,364	-	1,082,424
Total accumulated depreciation/amortization	15,464,168	1,543,544	15,499	16,992,213
Total capital assets being depreciated/amortized net	36,976,072	(1,062,913)	-	35,913,159
Electric-capital assets, net	\$ 38,037,042	176,148	289,309	37,923,881

(7) Capital assets (continued from previous page)

Combining Schedule				Balance
Business type activities:				End of
	Balance			Year
	Beginning of	Increases	Decreases	
	Year			Year
Capital assets not being depreciated/amortized:				
Land	\$ 1,906,487	-	-	1,906,487
Construction in progress	2,128,332	5,905,311	(2,908,209)	5,125,434
Total capital assets not being depreciated/amortized	4,034,819	5,905,311	(2,908,209)	7,031,921
Capital assets being depreciated/amortized:				
Total capital assets being depreciated/amortized	101,194,518	3,732,660	(15,499)	104,911,679
Total accumulated depreciation/amortization	46,398,754	3,127,317	(15,499)	49,510,572
Total capital assets being depreciated/amortized (net)	54,795,764	605,343	-	55,401,107
Business type activities capital assets, net	\$ 58,830,583	6,510,654	(2,908,209)	62,433,028

Depreciation was charged to functions of the primary government as follows:

Governmental activities:	
Public works	\$ 917,595
Public safety	169,310
Culture and recreation	627,380
General government	158,479
Total depreciation expense - governmental activities	<u>1,872,764</u>
Business type activities:	
Water	\$ 623,236
Wastewater	960,537
Electric	1,543,544
Total depreciation/amortization expense - business type activities	<u>\$ 3,127,317</u>

(8) Long-Term Liabilities

The City currently has long-term debt obligations in the form of general obligation bonds and revenue bonds. The City does not have any special assessment debt. A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due in More than One Year
Governmental activities:						
General obligation bonds/notes	\$ 4,260,000	-	855,000	3,405,000	615,000	2,790,000
Unamortized premiums	73,904	-	(9,745)	64,159	9,745	54,414
Unamortized discount	(10,878)	-	1,426	(9,452)	(1,426)	(8,026)
Total G.O. bonds payable, net	\$ 4,323,026	-	846,681	3,459,707	623,319	2,836,388
Capital Lease	253,474	-	92,172	161,302	95,514	65,788
Compensated absences	580,248	145,525	116,050	609,723	121,945	487,778
Net pension liability	2,453,034	679,147	-	3,132,181	-	3,132,181
Net OPEB liability	92,255	16,852	2,250	106,857	-	106,857
Total governmental activities	\$ 7,702,037	841,524	1,057,153	7,469,770	840,778	6,628,992
Business type activities:						
Revenue bonds/notes (gross)	\$ 11,279,879	8,151,782	757,420	18,674,241	1,129,000	17,545,241
Unamortized premiums	72,109	42,668	9,304	105,473	9,304	96,169
Unamortized discount	(14,394)	(17,044)	(2,263)	(29,175)	(2,263)	(26,912)
Total revenue bonds payable, net	\$ 11,337,594	8,177,406	764,461	18,750,539	1,136,041	17,614,498
Compensated absences	415,464	115,384	83,094	447,754	89,551	358,203
Net pension liability	1,277,893	244,011	-	1,521,904	-	1,521,904
Net OPEB liability	72,711	12,694	2,294	83,111	-	83,111
Total business type activities	\$ 13,103,662	8,549,495	849,849	20,803,308	1,225,592	19,577,716

General Obligation Bonds and Capital Leases

Three issues of unmatured general obligation bonds/notes totaling \$3,405,000 are outstanding at June 30, 2016. General obligation bonds/notes bear interest rates ranging from 1.85% to 4.10% per annum and mature in varying annual amounts, ranging from \$130,000 to \$390,000, with final maturities due in the year ending June 30, 2023.

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

The City entered into a capital lease agreement with Turfwerks for Bos Landen Irrigation System Improvements for a total of \$329,167. The lease bears an interest rate of 3.59% and is payable monthly with monthly principal and interest payments beginning May 31, 2015 and ending October 31, 2017. Payments for the current fiscal year totaled \$92,172.

(8) Long-Term Liabilities (continued from previous page)

Details of general obligation bonds and capital leases payable at June 30, 2016 are as follows:

Governmental activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2016
General and essential corporate purpose	2008A	3.80-3.90%	June 1, 2018	145,000-150,000	1,230,000	295,000
General and essential corporate purpose	2008B	3.85-4.10%	June 1, 2020	130,000-150,000	1,420,000	560,000
General and essential corporate purpose	2014	1.85-2.05-%	June 1, 2023	340,000-390,000	3,200,000	2,550,000
						<u>3,405,000</u>
Unamortized premiums						64,159
Unamortized discounts						<u>(9,452)</u>
Total governmental activities -General obligation bonds, net						<u>3,459,707</u>
Capital Lease Turfwerks	2014	3.59%	Oct. 31, 2017	65,788-95,514	329,167	<u>161,302</u>
Total governmental activities -G.O Bonds(net) & Capital leases						<u>\$ 3,621,009</u>

A summary of the annual general obligation bond and capital lease principal and interest requirements to maturity by year is as follows:

Year ending June 30,	General Obligation Debt			Year ending June 30,	Capital Lease		
	Principal	Interest	Total		Principal	Interest	Total
2017	\$ 615,000	84,413	699,413	2017	\$ 95,514	3,906	99,420
2018	630,000	67,098	697,098	2018	65,788	492	66,280
2019	500,000	48,947	548,947	Total	<u>\$ 161,302</u>	<u>4,398</u>	<u>165,700</u>
2020	515,000	35,975	550,975				
2021	375,000	22,525	397,525				
2022-2023	770,000	23,020	793,020				
Total	<u>\$3,405,000</u>	<u>281,978</u>	<u>3,686,978</u>				

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
General Government G/O	2008A	1,230,000	On & after 6/1/2016
General Government G/O	2008B	1,420,000	On & after 6/1/2016
G/O LOSST Bonds	2014	3,200,000	June 1, 2021

(8) Long-Term Liabilities (continued from previous page)

Revenue Notes

Seven issues of unmatured revenue notes totaling \$18,674,241 are outstanding at June 30, 2016. These notes bear interest at rates ranging from 1.75% to 3.10% per annum and mature in varying annual amounts ranging from \$33,000 to \$664,000 (estimated) with the final maturity due in the year ending June 30, 2034.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a) The notes will only be redeemed from the future net revenues of the enterprise activity and the note holders hold a lien on the future net revenues of the funds.
- b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c) Separate water and wastewater improvement and replacement accounts have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions, repairs to the system, or principal or interest payments if necessary.
- d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% for wastewater, not less than 125% for electric, and not less than 130% for water, of the amount of principal and interest on the notes falling due in the same year. Net revenues are defined as gross earnings after the deduction of current expenses; including the cost of operating, maintaining, repairing and insuring the system, purchases at wholesale, salaries, wages, and cost of materials and supplies. This excludes; the cost of depreciation, principal and interest payments, capital expenditures, franchise fees and transfers.

During the year ended June 30, 2016, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2016, are as follows:

Business type activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2016
Wastewater	1999	1.75%	June 1, 2021	\$169,000-197,000	2,800,000	913,000
Wastewater	2000	1.75%	June 1, 2021	98,000-116,000	1,604,000	534,000
Wastewater	2000	1.75%	June 1, 2021	33,000-39,000	641,000	179,000
Wastewater SRF Drawdown	2014	3.00%	June 1, 2034	169,000-291,000	4,364,580	4,027,580
Water SRF Drawdown		1.75%			Not Final	6,065,661
Electric	2014	2.00-3.10%	June 1, 2025	295,000-375,000	3,500,000	2,955,000
Electric	2015	2.00-2.50%	June 1, 2026	365,000-460,000	4,000,000	4,000,000
						<u>18,674,241</u>
Unamortized discount						(29,175)
Unamortized premium						<u>105,473</u>
Total business type activities -Net revenue bonds						<u>\$ 18,750,539</u>

(8) Long-Term Liabilities (continued from previous page)

A summary of annual revenue note principal and interest requirements to maturity are as follows:

Year ended June 30,	Enterprise Funds							
	Water (estimated)		Wastewater		Electric		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 651,000	106,149	469,000	149,774	660,000	163,578	1,780,000	419,501
2018	664,000	94,757	485,000	139,455	670,000	150,377	1,819,000	384,589
2019	677,000	83,137	505,000	128,792	680,000	136,978	1,862,000	348,907
2020	691,000	71,289	524,000	117,706	700,000	123,377	1,915,000	312,372
2021	705,000	59,197	544,000	106,210	715,000	106,228	1,964,000	271,635
2022-2026	2,677,661	110,944	1,057,000	410,041	3,530,000	256,645	7,264,661	777,630
2027-2031	-	-	1,240,000	240,900	-	-	1,240,000	240,900
2032-2034	-	-	829,580	51,300	-	-	829,580	51,300
Total	\$6,065,661	525,473	5,653,580	1,344,178	6,955,000	937,183	18,674,241	2,806,834

Revenue notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Wastewater	1999	\$ 2,800,000	Dec. 15, 2009
Wastewater	2000	1,604,000	Dec. 15, 2009
Wastewater	2000	641,000	Dec. 15, 2009
Wastewater	2011	4,364,580	Not subject to call
Water	2014	Longterm water supply-final amount not determined	
Electric	2014	3,500,000	June 1, 2022
Electric	2015	4,000,000	June 1, 2023

The following is a summary of the transactions for revenue notes, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2016:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Water revenue notes	\$ 1,913,879	4,151,782	-	6,065,661
Net water revenue notes	1,913,879	4,151,782	-	6,065,661
Sewer revenue notes	6,121,000	-	(467,420)	5,653,580
Net sewer revenue notes	6,121,000	-	(467,420)	5,653,580
Electric revenue notes	3,245,000	4,000,000	(290,000)	6,955,000
Unamortized discount	(14,394)	(17,044)	2,263	(29,175)
Unamortized premium	72,109	42,668	(9,304)	105,473
Net electric revenue notes	3,302,715	4,025,624	(297,041)	7,031,298
Total net revenue notes	\$ 11,337,594	8,177,406	(764,461)	18,750,539

(8) Long-Term Liabilities (continued from previous page)

The \$4,151,782 increase in water revenue notes is from the SRF loan fund. The water revenue note has taken a partial draw down on a loan that has been approved to be up to \$15,819,000. Water revenue note interest and principal payments will be determined by the timing and extent of the actual funds borrowed. Principal and interest payments for the purpose of this report were based on the estimated amortization tables provided. Interest is estimated to be at 1.75% for up to 20 years. Costs also include a 0.25% annual services fee on the outstanding principal.

An Electric Revenue capital Loan Note was issued December 30, 2015 for \$4,000,000. The Note carries interest which varies for 2.00% to 2.50%. Principal payments range from \$365,000 to \$460,000 payable over 10 years ending in fiscal year June 30, 2026.

Long-term Debt Interest Expense - The long-term debt costs and interest, governmental activities, in the Statement of Activities in the amount of \$110,064 is all direct debt costs and interest expense on long-term debt.

Loan discounts and premiums are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Discounts are presented as a reduction, premiums are presented as an increase to the face amount of bonds payable. The details of the discounts and premiums are listed in the previous schedules.

(9) Interfund Transfers

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to:	Transfer from:	Amount
General	Special Revenue:	
	Employee Benefits	\$ 630,988
	Sanitation	56,040
		<u>687,028</u>
Debt Service	Special Revenue:	
	Pella Business Corridor- TIF	299,223
	Local option sales tax	387,725
	General	99,420
		<u>786,368</u>
Capital Projects	General	325,371
	Electric	23,394
	Water	23,394
	Wastewater	23,394
	Special Revenue:	
	Local option sales tax	711,003
	Road use	199,754
	Pella Business Corridor- TIF	618,824
		<u>1,925,134</u>
	Special Revenue:	
Wastewater	Pella Business Corridor- TIF	<u>102,746</u>
Water	Special Revenue:	
	Pella Business Corridor- TIF	<u>267,456</u>

(10) **Net Position Restricted by Enabling Legislation**

The components of Net Restricted Position listed in Exhibit A are as follows:

Restricted for:	Governmental Activities	Business Type Activities
Nonexpendable:		
Security deposit	\$ -	70,000
Prepaid expenditures	1,010	-
Permanently restricted donation - Carnegie-Viersen Trust	40,000	-
Permanently restriction donation - Van Gorp Trust	100,000	-
Expendable:		
Debt service	15,649	-
Debt restricted - Electric Bond Reserve	-	4,055,971
Other - deposits	-	60,711
Special purposes:		
TIF - Mills Farm	193	-
TIF - Pella Business Corridor	575,481	-
Road use	985,900	-
Local Option Sales Tax	896,570	-
Pella Clothing Bank	921	-
Police Reserve	1,211	-
Community Development	4,971	-
Library Gifts/Memorials	81,411	-
Pella Community Center	237	-
Art Center	16,058	-
Airport	39,131	-
Police Asset Forfeiture	10,665	-
Soccer Complex	171	-
Community Gardens Trust Fund	3,624	-
Community Service Scholarship Trust	89	-
Parks Development	22,004	-
Carnegie-Viersen Trust Earnings - Educational purposes	35,509	-
Carnegie-Viersen-Van Gorp Trust - Library operations and repairs	35,211	-
Van Gorp Trust Earnings - Information Windmill Repairs	3,870	-
Total net restricted funds/position	\$ 2,869,886	4,186,682

(11) **Pension Plan**

Pension Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

(11) *Pension Plan (continued from previous page)*

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first.. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In the fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$392,143.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$3,109,157 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's collective proportion was 0.062540%, which was a decrease of 0.001887% from its proportions measured as of June 30, 2014.

(11) Pension Plan (continued from previous page)

For the year ended June 30, 2016, the City recognized pension expense of \$243,030 related to IPERS. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 46,975	-
Changes of assumptions	85,603	-
Net difference between projected and actual earnings on pension plan investments	465,192	723,955
Changes in proportion and differences between City contributions and proportionate share of contributions	(1,895)	80,758
City contributions subsequent to the measurement date	392,143	-
Total	<u>\$ 988,018</u>	<u>804,713</u>

\$392,143 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June, 30	
2017	\$ (105,920)
2018	(105,920)
2019	(105,920)
2020	112,300
2021	(3,378)
	<u>\$ (208,838)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00% to 17% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

(11) *Pension Plan (continued from previous page)*

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	-0.71
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 5,443,575	\$ 3,109,157	\$ 1,138,741

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2016, the City reported payables to the IPERS of \$30,547 for legally required City contributions and \$20,353 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(12) **Municipal Fire and Police Retirement System of Iowa (MFPRSI)**

Plan Description – MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City of Pella are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at www.mfprsi.org.

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66% of the member's average final compensation. Additional benefits are available to members who perform more than 22 years of service (2% for each additional year of service, up to a maximum of 8 years). Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50% surviving spouse benefit.

Active members, at least 55 years of age, with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4, or 5 year DROP period. By electing to participate in DROP the member is signing a contract indicating the member will retire at the end of the selected DROP period. During the DROP period the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

Disability and Death Benefits - Disability coverage is broken down into two types, accidental and ordinary. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50% of the member's average final compensation, for those with 5 or more years of service, or the member's service retirement benefit calculation amount, and 25% of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50 percent of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40% of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50% of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased (escalated) annually in accordance with Chapter 411.6 of the Code of Iowa which states a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

Contributions - Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa as modified by act of the 1994 General Assembly, to establish compliance with the Federal Older Workers Benefit Protections Act, the contribution rate was 9.4% of earnable compensation for the year ended June 30, 2016.

(12) *Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued from previous page)*

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa the employer's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 27.77% for the year ended June 30, 2016.

The City's contributions to MFPRSI for the year ended June 30, 2016 was \$251,681.

If approved by the state legislature, state appropriation may further reduce the employer's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State of Iowa therefore is considered to be a nonemployer contributing entity in accordance with the provisions of the Governmental Accounting Standards Board Statement No. 67 – Financial Reporting for Pension Plans, (GASB 67).

There were no state appropriations to MFPRSI during the fiscal year ended June 30, 2015.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$1,544,928 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all MFPRSI participating employers. At June 30, 2015, the City's proportion was .328838% which was an increase of .018902% from its proportions measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized MFPRSI pension expense of \$147,174. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 41,528	2,640
Changes of assumptions	116,244	-
Net difference between projected and actual earnings on pension plan investments	261,234	420,257
Changes in proportion and differences between City contributions and proportionate share of contributions	143,255	-
City contributions subsequent to the measurement date	251,681	-
Total	<u>\$ 813,942</u>	<u>422,897</u>

\$251,681 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June, 30	
2017	\$ (2,009)
2018	(2,009)
2019	(2,009)
2020	123,539
2021	21,852
	<u>\$ 139,364</u>

(12) *Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued from previous page)*

Actuarial Assumptions The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation	3.00%
Salary Increases	4.50 to 15.11%, including inflation
Investment rate of return	7.50%, net pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Mortality rates as of June 30, 2016 were based on RP2000 Blue Collar Combined Healthy table with males set-back two years, females set-forward one year and disabled set-forward one year (male only rates), with no projection of future mortality improvement.

Mortality rates as of June 30, 2015 were based weighting equal to 2/12 of the 1971 GAM table and 10/12 of the 1994 GAM table with no projection of future mortality improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (i.e., expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class as of October 1, 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Plus Fixed Income	7.0%	3.8%
Emerging Markets Debt	3.0	6.5
Domestic equities	12.5	6.0
Master Limited Partnerships (MLP)	5.0	8.5
International equity	12.5	7.0
Core Investments	40.0%	
Tactical Asset Allocation	35.0	6.0
Private equity/debt	15.0	9.8
Private Non-Core Real Estate	5.0	9.3
Private Core Real Estate	<u>5.0</u>	6.8
Real estate	<u>10.0</u>	
Total	<u><u>100%</u></u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions will be made at the current contribution rate and the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(12) *Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued from previous page)*

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 2,689,766	\$ 1,544,928	\$ 593,702

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued MFPRSI financial report which is available on MFPRSI's website at www.mfprsi.org.

Payables to the Pension Plan - At June 30, 2016, the City of Pella reported payables to the MFPRSI defined benefit pension plan of \$19,412 for legally required employer contributions and \$6,570 for legally required employee contributions which had been withheld from employee wages but not yet remitted to MFPRSI.

(13) **Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 90 eligible, 83 active and 2 retired members in the plan. General participants (IPERS) must be age 55 or older at retirement. Police participants (MFPRSI) must be age 55 or older with 22 years of service at retirement. Surviving spouse/dependents of retirees are allowed to remain on health coverage at their own expense until age 65.

The medical/prescription drug coverage is provided through a purchased high deductible health insurance plan and a partially self-funded plan where the City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 29,251
Interest on net OPEB obligation	6,599
Adjustment to annual required contribution	(6,304)
Annual OPEB cost	29,546
Contributions made	(4,544)
Increase in net OPEB obligation	25,002
Net OPEB obligation beginning of year	164,966
Net OPEB obligation end of year	\$ 189,968

(13) *Other Postemployment Benefits (continued from previous page)*

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2014. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2016, the City contributed \$4,544 toward the annual required OPEB contribution. It also funded 90% of the established premium toward active members' health coverage. Active members receiving benefits contributed \$87,009, or 10% of the established premium, through their required contribution of \$49.70 or \$104.70 per month, depending on whether single or family coverage is elected. There were two retirees covered during the 2016 fiscal year.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 24,155	4.4%	\$ 45,156
June 30, 2011	20,780	4.4%	65,936
June 30, 2012	26,230	4.0%	92,166
June 30, 2013	30,195	4.0%	118,468
June 30, 2014	30,242	4.0%	140,061
June 30, 2015	29,449	4.0%	164,966
June 30, 2016	29,546	4.0%	189,968

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was \$231,346, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$231,346. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5,352,243 and the ratio of the UAAL to covered payroll was 4.3%. As of June 30, 2016, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014, actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the City's funding policy. The projected annual medical trend rate is 7.0%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2014 Mortality Tables with Scale MP-2014, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2014 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2014.

The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(14) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for employees and Code Section 401 for the position of City Administrator. The 457 plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust for the exclusive benefit of plan participants and beneficiaries. These funds are invested and held by the ICMA-RA (International City County Management Association Retirement Corporation) and not by the City. Therefore, they are not listed as a liability of the City.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

(15) Related Party Transactions

The City had business transactions between the City and Council members totaling \$1,538 during the year ended June 30, 2016. There were no related payables at June 30, 2016.

(16) Major Customer

During the year ended June 30, 2016, the City of Pella Municipal Electric Utility had two major customers. They purchased \$3,420,286 and \$2,649,108 of electric power. These charges represent 19.72% and 15.27%, respectively, of total charges for electric services.

(17) Risk Management

Insurance - The City of Pella carries commercial insurance purchased from issuers for coverage associated with risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Shared Funding/Partial Self-Funding Health Care Plan – The City of Pella entered into a 28E agreement on July 7, 2009, as allowed by Chapter 28E of the Code of Iowa which authorizes the joint exercise of governmental powers that would include a cooperative agreement to create and maintain a health benefit program. The participating agencies join together to form the Iowa Governmental Health Care Plan (IGHCP). IGHCP is a benefits trust for shared risk pooling among Public Employers in the State of Iowa. Its unique design allows entities to enter into the trust based on claims experience, plan design and demographics. The entities are then pooled at renewal, using total claims experience to develop renewal percentages.

IGHCP purchases a high deductible health insurance plan from Wellmark, Blue Cross/Blue Shield. The City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan.

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the City for claims incurred is limited by the spread between the deductibles and out-of-pocket maximums and those of the policy carried by the City. For 2014 and 2015, the risk spread for employees with single coverage was \$2,750 and \$2,950 per employee and for those with family coverage was \$5,500 and \$5,900 per employee, respectively. The total risk in 2014 and 2015 were \$371,250 and \$421,850, respectively. In 2016, the risk spread was \$2,950 for employees with single coverage and \$5,900 for employees with family coverage. Total risk in 2016 was \$421,850 if every employee hit their maximum out-of-pocket amounts.

At June 30, 2016, the plan held \$667,407 cash and pooled investments. The actuarial estimate of the reserves necessary for the claims incurred but not yet paid was \$36,951, which is listed as the accounts payable balance of the Internal Service Fund.

(18) Commitments

The City has entered into several contracts totaling \$21,557,758. At June 30, 2016, \$8,734,687 had been paid towards these contracts. The remaining amounts will be paid as work on the projects progresses.

Contracts	Contract Amount	Amount Paid	% Complete
RO Water Treatment Plant			
Ericksen Construction Co, Inc	\$ 8,741,599	2,173,316	25%
Oskaloosa Street Reconstruction			
Hawkeye Paving Corp	2,947,778	1,481,783	50%
Water Supply Construction			
C.L. Carroll, Co	2,355,979	2,238,180	95%
West Substation Ring Bus Conversion			
Primoris Aevenia Inc	1,807,152	-	0%
RO Waste & Raw Water Main			
Dave Schmitt Construction	1,244,502	-	0%
Washington St Reconstruction			
Blommers Construction	877,972	318,937	36%
Hazel St Reconstruction			
Blommers Construction	149,401	141,931	95%
Water Supply Plan			
Howard R Green Company	1,987,000	1,573,942	79%
Vermeer Trail			
Garden & Associates, Ltd	94,800	21,682	23%
Oskaloosa Street Reconstruction			
Garden & Associates, Ltd	206,500	179,435	87%
Washington St Reconstruction			
Garden & Associates, Ltd	106,000	54,020	51%
69kV Ring Bus			
DGR Engineering	310,400	241,817	78%
Electrical Power Products (EP2)	251,559	-	0%
Truman Rd/Clark St Sewer Lining			
Visu-Sewer Inc	275,147	261,390	95%
West Central Underground Conversion			
DGR Engineering	88,100	48,254	55%
Kriz-Davis	22,752	-	0%
Resco	47,675	-	0%
Irby	33,442	-	0%
	<u>\$ 21,547,758</u>	<u>8,734,687</u>	

(18) *Commitments (continued from previous page)*

Other Contracts:		Expires:
Power Supply Agreement		
Missouri River Energy Services	Monthly charges	1/1/2057
Transmission Service Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
MISO Market Implementation Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
Dedicated Capacity Agreement		
Missouri River Energy Services	Monthly revenue	12/31/2018
Solid Waste Collection		
Kal Services, Inc.	per tote	7/31/2020

Required Supplementary Information

City of Pella, Iowa
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances
Budget and Actual (Modified Accrual Basis)
Governmental and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2016

	Budgeted Amounts					
	Governmental Funds-Actual	Proprietary Funds-Actual	Total Actual	Original	Final	Final to Actual Variance
Revenues:						
Property taxes	\$ 4,538,229	-	4,538,229	4,538,718	4,538,718	(489)
Tax increment financing	692,606	-	692,606	700,003	700,003	(7,397)
Other city taxes	1,503,150	-	1,503,150	1,453,306	1,493,306	9,844
Licenses and permits	115,971	-	115,971	87,700	107,700	8,271
Use of money and property	72,658	55,513	128,171	108,570	108,570	19,601
Intergovernmental	3,458,536	-	3,458,536	3,978,102	3,156,902	301,634
Charges for services	511,267	25,633,000	26,144,267	25,577,493	25,577,493	566,774
Special Assessments	-	-	-	-	-	-
Miscellaneous	583,979	206,000	789,979	86,414	593,844	196,135
Total revenues	11,476,396	25,894,513	37,370,909	36,530,306	36,276,536	1,094,373
Expenditures:						
Public safety	2,151,634	-	2,151,634	2,186,755	2,196,755	45,121
Public works	1,135,503	-	1,135,503	1,216,449	1,228,449	92,946
Culture and recreation	2,396,826	-	2,396,826	2,359,649	2,450,349	53,523
Community and economic development	602,407	-	602,407	557,667	581,667	(20,740)
General government	616,807	-	616,807	553,489	600,489	(16,318)
Debt service	1,067,803	-	1,067,803	1,067,403	1,067,403	(400)
Capital projects	3,403,574	-	3,403,574	3,706,027	3,151,291	(252,283)
Business type activities	-	29,491,310	29,491,310	31,760,275	35,145,654	5,654,344
Total expenditures	11,374,554	29,491,310	40,865,864	43,407,714	46,422,057	5,556,193
Excess (deficiency) of revenues over (under) expenditures	101,842	(3,596,797)	(3,494,955)	(6,877,408)	(10,145,521)	6,650,566
Other financing sources (uses):						
Operating transfers in	3,398,530	370,202	3,768,732	6,708,709	9,629,422	5,860,690
Operating transfers out	(3,642,510)	(126,222)	(3,768,732)	(6,708,709)	(9,629,422)	(5,860,690)
Unrealized gains(losses) on investments	329	-	329	-	-	(329)
Debt Proceeds	-	8,194,450	8,194,450	6,836,000	11,591,625	3,397,175
Proceeds from sale of assets	4,563	98,787	103,350	-	-	(103,350)
Total other financing sources	(239,088)	8,537,217	8,298,129	6,836,000	11,591,625	3,293,496
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(137,246)	4,940,420	4,803,174	(41,408)	1,446,104	3,357,070
Balance beginning of year	5,125,085	8,971,611	14,096,696	12,382,843	14,096,695	1
Balance end of year	\$ 4,987,839	13,912,031	18,899,870	12,341,435	15,542,799	3,357,071

See the following page for GAAP to modified accrual conversion necessary for this comparison.

See accompanying independent auditor's report.

City of Pella, Iowa
Budgetary Comparison Schedule
Proprietary-GAAP to Modified Accrual Reconciliation
Required Supplementary Information
Year ended June 30, 2016

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 25,894,513	-	25,894,513
Expenses:			
Business type activities	25,046,696	4,444,614	29,491,310
Excess (deficiency) of revenues under expenses	847,817	(4,444,614)	(3,596,797)
Other financing sources (uses):			
Operating transfers (to) from other funds	243,980	-	243,980
Net sale/purchase of fixed assets	98,787	-	98,787
Debt proceeds	-	8,194,450	8,194,450
Total other financing sources (uses)	342,767	8,194,450	8,537,217
Increase in net position	1,190,584	3,749,836	4,940,420
Beginning net position	54,884,850	(45,913,239)	8,971,611
Ending net position	\$ 56,075,434	(42,163,403)	13,912,031

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting.

See accompanying independent auditor's report.

City of Pella, Iowa
Notes to Required Supplementary Information - Budgetary Reporting
Year ended June 30, 2016

The budgetary comparison is presented as Required Supplementary Information in accordance with *Government Accounting Standards* Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$3,014,343. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements in the community and economic development, general government, debt service and capital projects functions exceeded the amounts budgeted.

City of Pella, Iowa
Schedule of the City's Proportionate Share of the Net Pension Liability
Iowa Public Employee's Retirement System
For the Last Two Years* (In Thousands)
Required Supplementary Information

	2016	2015
City's proportion of the net pension liability, IPERS	0.062540%	0.064427%
City's proportion of the net pension pension liability, IPERS	\$ 3,109	2,607
City's covered-employee payroll	\$ 5,444	4,480
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	57.11%	58.19%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

*In accordance with GASB Statement No.68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Pella, Iowa
Schedule of City Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years (In Thousands)
Required Supplementary Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 392	385	385	362	380	315	321	285	260	229
Contributions in relation to the statutorily required contribution	(392)	(385)	(385)	(362)	(380)	(315)	(321)	(285)	(260)	(229)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 5,582	5,444	4,480	4,499	5,702	4,633	4,711	4,624	4,429	4,623
Contributions as a percentage of covered-employee payroll	7.02%	7.07%	8.59%	8.05%	6.66%	6.80%	6.81%	6.16%	5.87%	4.95%

See accompanying independent auditor's report.

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

City of Pella, Iowa
Schedule of the City's Proportionate Share of the Net Pension Liability
Municipal Fire and Police Retirement System of Iowa
For the Last Two Years* (In Thousands)
Required Supplementary Information

	2016	2015
City's proportion of the net pension liability, MFPRSI	0.328838%	0.309936%
City's proportion of the net pension pension liability, MFPRSI	\$ 1,545	1,124
City's covered-employee payroll	\$ 5,444	4,480
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	28.38%	25.09%
Plan fiduciary net position as a percentage of the total pension liability	78.20%	83.04%

*In accordance with GASB Statement No.68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Pella, Iowa
Schedule of City Contributions
Municipal Fire and Police Retirement System of Iowa
Last 10 Fiscal Years (In Thousands)
Required Supplementary Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 252	260	235	201	171	137	117	121	163	167
Contributions in relation to the statutorily required contribution	(252)	(260)	(235)	(201)	(171)	(137)	(117)	(121)	(163)	(167)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 5,582	5,444	4,480	4,499	5,702	4,633	4,711	4,624	4,429	4,623
Contributions as a percentage of covered-employee payroll	4.51%	4.78%	5.25%	4.47%	3.00%	2.96%	2.48%	2.62%	3.68%	3.61%

See accompanying independent auditor's report.

Changes of benefit terms:

There were no significant changes of benefit terms.

Changes of assumptions:

Effective July 1, 2014, two additional steps were taken to phase in the 1994 Group Annuity Mortality Table for post-retirement mortality. The two additional steps result in a weighting of 2/12 of the 1971 Group Annuity Mortality Table and 10/12 of the 1994 Group Annuity Mortality Table.

City of Pella, Iowa
Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2009	\$ -	199,000	199,000	0.0%	\$ 4,866,000	4.1%
2010	July 1, 2009	-	199,000	199,000	0.0%	4,259,187	4.7%
2011	July 1, 2009	-	199,000	199,000	0.0%	4,202,220	4.7%
2012	July 1, 2011	-	256,727	256,727	0.0%	4,543,545	5.7%
2013	July 1, 2011	-	256,727	256,727	0.0%	4,522,000	5.7%
2014	July 1, 2011	-	256,727	256,727	0.0%	4,450,076	5.8%
2015	July 1, 2014	-	231,346	231,346	0.0%	5,031,240	4.6%
2016	July 1, 2014	-	231,346	231,346	0.0%	5,352,243	4.3%

See Note 12 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

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Supplementary Information

Schedule 1

City of Pella, Iowa
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2016

	Special Revenue Funds									
	Pella Business Corridor Tax Increment Financing	Highpoint Tax Increment Financing	Mills Farm Tax Increment Financing	Road Use	Local Option Sales Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/Memorial
Assets										
Cash, cash equivalents and pooled investments	\$ 575,083	-	193	1,019,390	729,167	-	921	1,211	4,971	83,674
Receivable:										
Property tax:										
Delinquent	-	-	-	-	-	3,678	-	-	-	-
Succeeding year	-	-	-	-	-	867,170	-	-	-	-
Tax increment financing:										
Delinquent	398	-	-	-	-	-	-	-	-	-
Succeeding year	950,005	-	10,594	-	-	-	-	-	-	-
Local option sales tax	-	-	-	-	167,403	-	-	-	-	-
Accounts receivable, miscellaneous	-	-	-	3,764	-	-	-	-	-	-
Total assets	\$ 1,525,486	-	10,787	1,023,154	896,570	870,848	921	1,211	4,971	83,674
Liabilities, Deferred Inflows of Resources and Fund Balances										
Liabilities:										
Excess of warrants over bank balance	\$ -	-	-	-	-	3,678	-	-	-	-
Accounts payable	-	-	-	23,123	-	-	-	-	-	2,263
Salaries and benefits payable	-	-	-	14,131	-	-	-	-	-	-
Customer Deposits	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	37,254	-	3,678	-	-	-	2,263
Deferred inflows of resources:										
Unavailable revenues:										
Succeeding year property tax	-	-	-	-	-	867,170	-	-	-	-
Tax increment financing	950,005	-	10,594	-	-	-	-	-	-	-
Total deferred inflows of resources	950,005	-	10,594	-	-	867,170	-	-	-	-
Fund balances:										
Nonspendable:										
Permanent trust	-	-	-	-	-	-	-	-	-	-
Restricted for:										
Other purposes	575,481	-	193	985,900	896,570	-	921	1,211	4,971	81,411
Total fund balances	575,481	-	193	985,900	896,570	-	921	1,211	4,971	81,411
Total liabilities, deferred inflows of resources and fund balances	\$ 1,525,486	-	10,787	1,023,154	896,570	870,848	921	1,211	4,971	83,674

See accompanying independent auditor's report.

Schedule 1

Special Revenue Funds									Permanent Funds		
Pella Community Center	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Gardens Trust Fund	Community Service Scholarship Trust	Parks Development	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
237	16,186	39,131	10,665	171	4,130	89	22,004	35,509	75,211	103,870	2,721,813
-	-	-	-	-	-	-	-	-	-	-	3,678
-	-	-	-	-	-	-	-	-	-	-	867,170
-	-	-	-	-	-	-	-	-	-	-	398
-	-	-	-	-	-	-	-	-	-	-	960,599
-	-	-	-	-	-	-	-	-	-	-	167,403
-	-	-	-	-	-	-	-	-	-	-	3,764
237	16,186	39,131	10,665	171	4,130	89	22,004	35,509	75,211	103,870	4,724,825
-	-	-	-	-	-	-	-	-	-	-	3,678
-	128	-	-	-	31	-	-	-	-	-	25,545
-	-	-	-	-	-	-	-	-	-	-	14,131
-	-	-	-	-	475	-	-	-	-	-	475
-	128	-	-	-	506	-	-	-	-	-	43,829
-	-	-	-	-	-	-	-	-	-	-	867,170
-	-	-	-	-	-	-	-	-	-	-	960,599
-	-	-	-	-	-	-	-	-	-	-	1,827,769
-	-	-	-	-	-	-	-	-	40,000	100,000	140,000
237	16,058	39,131	10,665	171	3,624	89	22,004	35,509	35,211	3,870	2,713,227
237	16,058	39,131	10,665	171	3,624	89	22,004	35,509	75,211	103,870	2,853,227
237	16,186	39,131	10,665	171	4,130	89	22,004	35,509	75,211	103,870	4,724,825

Schedule 2

City of Pella, Iowa
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Non-Major Other Governmental Funds
Year ended June 30, 2016

	Special Revenue Funds									
	Pella Business Corridor Tax Increment Financing	Highpoint Tax Increment Financing	Mills Farm Tax Increment Financing	Road Use	Local option sales tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/ Memorial
Revenues:										
Property tax	\$ -	-	-	-	-	599,279	-	-	-	-
Tax increment financing	692,606	-	-	-	-	-	-	-	-	-
Local option sales tax	-	-	-	-	1,016,934	-	-	-	-	-
Other City Taxes	-	-	-	-	-	2,590	-	-	-	-
Intergovernmental	-	-	-	1,279,292	270,000	27,884	-	-	-	14,951
Use of money and property	1,542	-	-	-	936	1,235	3	4	17	345
Charges for service	-	-	-	1,333	-	-	-	-	-	-
Miscellaneous	-	-	1,530	2,771	-	-	1,999	-	-	18,954
Total revenues	694,148	-	1,530	1,283,396	1,287,870	630,988	2,002	4	17	34,250
Expenditures:										
Operating:										
Public Safety	-	-	-	-	-	-	-	-	-	-
Public works	-	-	-	814,837	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	2,074	-	-	40,516
Community and economic development	46,800	55	1,337	-	-	-	-	-	-	-
General government	-	-	-	-	12,119	-	-	-	-	-
Capital Projects	-	-	-	3,050	-	-	-	-	-	-
Total expenditures	46,800	55	1,337	817,887	12,119	-	2,074	-	-	40,516
Excess (deficiency) of revenues over (under) expenditures	647,348	(55)	193	465,509	1,275,751	630,988	(72)	4	17	(6,266)
Other financing sources (uses):										
Operating transfer in	-	-	-	-	-	-	-	-	-	-
Operating transfer (out)	(1,288,249)	-	-	(199,754)	(1,098,728)	(630,988)	-	-	-	-
Unrealized gains(losses) in investments	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of assets	-	-	-	2,610	-	-	-	-	-	-
Total other financing sources (uses)	(1,288,249)	-	-	(197,144)	(1,098,728)	(630,988)	-	-	-	-
Changes in fund balances	(640,901)	(55)	193	268,365	177,023	-	(72)	4	17	(6,266)
Fund balances beginning of year	1,216,382	55	-	717,535	719,547	-	993	1,207	4,954	87,677
Fund balances end of year	\$ 575,481	-	193	985,900	896,570	-	921	1,211	4,971	81,411

See accompanying independent auditor's report.

Schedule 2

Special Revenue Funds										Permanent Funds		
Pella Community Center	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Gardens Trust Fund	Community Service Scholarship Trust	Parks Develop- ment	Carnegie-Viersen- Van Gorp Trust Fund		Carnegie- Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
-	-	-	-	-	-	-	-	-	-	-	-	599,279
-	-	-	-	-	-	-	-	-	-	-	-	692,606
-	-	-	-	-	-	-	-	-	-	-	-	1,016,934
-	-	-	-	-	-	-	-	-	-	-	-	2,590
-	-	-	4,000	-	-	-	-	-	-	-	-	1,596,127
3	17	147	187	-	679	-	78	135		20	404	5,752
-	-	-	-	-	-	-	-	-	-	-	-	1,333
600	1,134	-	-	-	-	-	44,162	-		-	-	71,150
603	1,151	147	4,187	-	679	-	44,240	135		20	404	3,985,771
-	-	-	10,626	-	-	-	-	-	-	-	-	10,626
-	-	-	-	-	-	-	-	-	-	-	-	814,837
2,884	839	-	-	-	130	48	60,060	-		-	-	106,551
-	-	-	-	-	-	-	-	-	-	-	-	48,192
-	-	-	-	-	-	-	-	-	-	-	-	12,119
-	-	-	-	-	-	-	-	-	-	-	-	3,050
2,884	839	-	10,626	-	130	48	60,060	-		-	-	995,375
(2,281)	312	147	(6,439)	-	549	(48)	(15,820)	135		20	404	2,990,396
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	(3,217,719)
-	-	-	-	-	-	-	-	-	-	329	-	329
-	-	-	-	-	-	-	-	-	-	-	-	2,610
-	-	-	-	-	-	-	-	-	-	329	-	(3,214,780)
(2,281)	312	147	(6,439)	-	549	(48)	(15,820)	135		349	404	(224,384)
2,518	15,746	38,984	17,104	171	3,075	137	37,824	35,374		74,862	103,466	3,077,611
237	16,058	39,131	10,665	171	3,624	89	22,004	35,509		75,211	103,870	2,853,227

City of Pella, Iowa
Schedule of Revenues by Sources and Expenditures by Function
All Governmental Funds
For the Last Ten Years

	Modified Accrual Basis									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues:										
Property tax	\$ 4,538,229	4,562,415	4,309,539	3,851,629	3,804,765	3,740,164	3,844,577	3,420,082	2,863,107	2,792,009
Tax increment financing revenue	692,606	640,576	414,713	1,460,029	1,500,001	1,367,004	944,634	1,616,632	2,022,553	1,867,289
Local option sales tax	1,016,934	991,254	998,237	944,294	954,070	937,924	806,475	1,180,851	875,711	984,332
Other city tax	486,216	454,343	453,159	458,477	452,189	417,145	381,025	400,928	516,806	499,706
Licenses and permits	115,971	146,254	104,104	93,058	66,381	50,908	41,960	29,859	18,266	21,369
Use of money and property	72,658	54,895	55,121	49,831	58,294	54,493	65,787	117,224	158,941	177,215
Intergovernmental	3,458,536	2,355,494	1,982,474	1,764,581	2,741,810	2,324,156	2,064,034	1,709,321	1,622,953	1,519,012
Special assessments	-	0	-	-	-	-	-	-	-	44,124
Charges for service	511,267	400,671	411,515	405,978	446,540	385,197	460,177	492,108	411,384	340,054
Miscellaneous	583,979	2,229,312	2,080,350	1,190,810	161,446	99,958	125,394	112,268	170,369	406,459
Total	\$ 11,476,396	11,835,214	10,809,212	10,218,687	10,185,496	9,376,949	8,734,063	9,079,273	8,660,090	8,651,569
Expenditures:										
Operating:										
Public safety	\$ 2,151,634	2,132,520	1,971,557	1,847,144	1,778,204	1,743,896	1,551,122	1,538,082	1,568,486	1,411,218
Public works	1,135,503	1,188,040	1,133,579	1,114,288	1,110,420	1,126,308	1,122,410	1,101,806	1,037,294	1,010,058
Culture and recreation	2,396,826	2,079,499	2,070,076	1,909,927	1,725,022	1,797,234	1,687,573	1,815,563	1,645,610	1,585,354
Community and economic development	602,407	546,442	638,673	620,265	579,804	670,113	479,241	504,894	463,659	541,534
General government	616,807	566,714	534,095	520,791	500,472	583,175	468,360	450,969	344,179	339,003
Debt service	1,067,803	1,446,277	998,354	962,228	957,882	977,618	3,719,956	1,372,483	5,853,291	1,706,474
Capital projects	3,403,574	5,892,536	6,609,085	3,052,512	2,048,265	2,666,864	631,463	1,255,727	3,142,731	2,217,218
Total	\$ 11,374,554	13,852,028	13,955,419	10,027,155	8,700,069	9,565,208	9,660,125	8,039,524	14,055,250	8,810,859

See accompanying independent auditor's report.

Schedule 4

City of Pella, Iowa
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Justice			
Mid Iowa Narcotics Task Force (MINE) via Polk County			
Hot Spot 08 Meth Grant	16.710	#14-CAMP-08	\$ 847
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-5947(615)-70-63	987,523
Iowa Department of Public Safety:			
State and Community Highway Safety Grant	20.601	PAP 15-402, M0OP, Task 10	6,111
State and Community Highway Safety Grant	20.601	PAP 16-402, M0OP, Task 9	3,870
			9,981
U.S. Environmental Protection Agency:			
Iowa Finance Authority:			
Clean Water State Revolving Fund	66.458	LS6314DWSRF2012	4,151,782
Total indirect			5,150,133
Total			\$ 5,150,133

See accompanying notes to schedule of expenditures of federal awards

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal awards activity of the City of Pella under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements for Federal Awards (uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Pella, it is not intended to and does not present the financial position or cash flows of the City of Pella.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual or modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles on OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Pella has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Federal Loan Outstanding

The City participates in the following loan program for which loan amounts and payments are not required to be included on the schedule of expenditures of federal awards.

<u>CFDA #</u>	<u>Program</u>	<u>Outstanding Balance</u> <u>As of June 30, 2016</u>
66.458	Clean Water State Revolving Fund	\$10,093,241



705 Main Street
Pella, IA 50219
Ph.: 641-628-3737
Fax: 641-628-3757

www.vanmaanencpa.com

Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Honorable Mayor and Members of the City Council
City of Pella, Iowa:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Pella's internal control over financial reporting to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pella's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pella's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Pella's Responses to Findings

The City of Pella's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Pella's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pella during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

November 17, 2016



705 Main Street
Pella, IA 50219
Ph.: 641-628-3737
Fax: 641-628-3757

www.vanmaanencpa.com

Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance**

To the Honorable Mayor and Members of the City Council City of Pella, Iowa:

Report on Compliance for Each Major Federal Program

We have audited the City of Pella's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City of Pella's major federal programs for the year ended June 30, 2016. The City of Pella's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Pella's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pella's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination on the City of Pella's compliance.

Opinion on each Major Federal Program

In our opinion, the City of Pella complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The management of the City of Pella is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Pella's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

November 17, 2016

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (g) The major programs were as follows:
 - CFDA Number 20.205 – highway Planning and Construction
 - CFDA Number 66.458 – Clean Water State Revolving Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Pella qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Expenditures for the year ended June 30, 2015, exceeded the budget in community and economic development, general government, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future.

City of Pella, Iowa
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees for the year ended June 30, 2016 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Schiebout, Council Member	Core drill & seal conduit for Vermeer Substation	\$188
Owner of Eagle Electric	Fiber termination for Vermeer	\$1,350

There were no related payables at June 30, 2016.

The transaction with the Council Member may be a conflict of interest, with Chapter 362.5(3)(j) of the Code of Iowa, since the total transactions with the individual were more than \$1,500 during the fiscal year.

Recommendation - The City may want to consult legal counsel to determine whether this is a violation of the Code of Iowa.

Response - We will consult with legal counsel.

Conclusion - Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (7) Council Minutes - No transactions were found that should have been approved in the Council Minutes but were not.
- (8) Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.
- (9) Annual Urban Renewal Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1, 2016.